



The Voice of Small Business

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Small Business and the Michigan Economy

Testimony before the House Commerce Committee
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My name is Charles Owens and I am the State Director for the National Federation of Independent Business, an organization providing legislative advocacy for almost 20,000 Michigan small businesses.

Thank you for this opportunity to come before the committee and discuss small business in the context of the current Michigan Economy. Let me begin by informing you that I am not an economist. I am a representative that advocates for small business in Michigan. In that role I have an opportunity to observe and interact with small business job providers from all corners of the state. In fact, in the last four weeks before this committee hearing I have attended local meetings in Grand Rapids, Jackson, Saginaw, Macomb, Livonia, Lansing, Petoskey, Sault Ste Marie and Escanaba with more than one hundred small business. The meetings are a reflection of our membership which, in turn, is a representative slice of Michigan small business. Service and manufacturing, farm and retail, construction and financial – NFIB membership cuts across all industry segments. NFIB determines its policy positions on issues by a direct survey or ballot of the membership. Therefore our positions reflect the opinions and concerns of the aforementioned representative slice of Michigan small business. Our positions may not always be popular, but to the satisfaction of our supporters and the annoyance of our critics, they are always an accurate snapshot of Michigan small business opinion. When this information is tempered with economic and research data, then policy makers have the opportunity to observe a clear vision of where small business would like the state to go in its pursuit of economic and tax policy in our state.

But why should policy makers care what small business thinks about our economy and our tax policy? The answer can be found from some Michigan statistics gleaned from data provided by the U.S. Small Business Administration:

- There were 742,600 small businesses in Michigan in 2003 including self employed businesses.
- Of the 210,803 businesses in Michigan with employees, 98.4 percent, or 207,400 were small (with fewer than 500 employees based on 2003 firm size data).
- 203,430 or 98.1 percent of those firms had less than 100 employees.
- In 2001, businesses with fewer than 500 workers employed 50.8 percent of the state's 4,008,570 non-farm sector employees.
- In 2001, businesses with fewer than 100 workers employed 36.1 percent of the state's 4,008,570 non-farm sector employees.
- In 2004, businesses in Michigan with less than 10 employees created 28,534 new jobs while businesses with more than 99 employees lost 68,178 jobs.

The answer is clear: while our state has been shedding jobs by the thousands, small business has been picking up the slack. This is nothing new to those of us who are familiar with the economic impact that small business has on our economy. If you were to look back into all of the other past economic ups and downs in the state and nation, the story would be the same: small business is the shock absorber on the economic roller coaster.

However, it might be news to many in the public policy arena who think that the answer to the jobs puzzle lies in continuing to throw money at big business and targeted industries instead of addressing the overall business climate of the state. If that were the only flaw in the state's approach to economic development, it would be more annoying than substantive in the overall scheme of things. The problem is that many believe that another answer is to restructure our business tax system to reward sectors that are shedding jobs by shifting taxes to those that create them. What's wrong with this picture?

The short answer is that such approaches are much easier than looking in the mirror and admitting that it is the state's overall tax and regulatory climate that needs revision. To tackle that problem takes a long-term view and tough leadership. If there is any doubt that our overall business climate is in need of review, take a look at a number of recently released studies that point out the clouds on our economic development horizon:

- The U.S. Economic Freedom Index, recently released by the Pacific Research Institute, in association with *Forbes* magazine. This index compares and ranks states based on over 100 variables, including taxes, state government spending,

and regulations. The executive summary of the study can be found here: <http://www.pacificresearch.org>. With 1 being the best and 50 being the worst, Michigan is ranked 34.

- In the Washington DC based Tax Foundation's overall business climate index, Michigan ranked 36th out of 50 and in the category of corporate taxes our state ranked dead last.
- According to the Michigan *Small-Business Conditions*SM report released on March 1 of this year, only a net 15 percent of the state's small employers (percent positive minus percent negative) believed business conditions in their market area are good while a net 16 percent characterized conditions as improving. Michigan's figures put the state last among the twenty-six states surveyed on business conditions. The new report's data provides an overview of small-business conditions within Michigan and compares them with neighboring and other large population states.

So where do we go from here? The good news is that the state has almost no where to go but up and small business continues to lead the way out of the difficult economic times in which we find ourselves. We have testified before in this committee and elsewhere that the twin sisters of job death are taxes and regulation. More than anything else, these two components determine a state's overall business climate. A positive influence on the business climate of a state is the focus on entrepreneurship or fostering an environment where business can grow and prosper. In that regard, we offer the following suggestions and guidelines to our policy makers as a good start in moving Michigan back on track:

Tax Policy

It has been observed many times before, but it bears repeating again, that our Single Business Tax has been the major culprit in sending a negative message to job providers both within and without our state. Although we have not taken a formal position on the governor's restructuring proposal (we will survey / ballot our members when we have more specifics on the plan) the response from our state-wide member meetings has been less than enthusiastic. Time and time again our members have indicated that the single business tax should be given a decent burial. A preview of the plan to our members at the aforementioned meetings (the "bullet points" from the governor's plan) yielded the following observations:

- Given our current economic conundrum, the litmus test for every tax proposal should be whether it will have a positive impact on job creation. Any analysis of this proposal we have seen has been lacking in this regard. In fact, in a February 4th MIRS article, treasury officials admitted that they were not able to determine if the proposal would create any new jobs. Policy makers should consider that revenue neutral as a goal for tax restructuring may also translate to "jobs neutral".

- Every prior single business tax change has lowered the tax for all or some in-state businesses without raising the tax on others. This proposal is the first to play one business sector off against another. This accomplishes two things: It creates divisiveness for the in-state business community, and it creates uncertainty for the out-state business community considering where to locate a business. Neither of these results are conducive to job creation or economic development.
- Although the goal of “revenue neutral” may be met in the initial year of the tax restructuring proposal, clearly this plan is designed to enhance revenue to the state in the long term. The message being sent by this facet of the proposal is that state government intends to continue to grow rather than stick to any long term budget reduction strategy or discipline.

Whether the proposal will be supported by small business or not remains to be seen, however, declarations that the plan represents a “bold approach” to solving Michigan’s business climate problem are premature at best.

Past efforts by lawmakers to encourage small business development with changes to the single business tax have been a success and credit is due for your hard work. I refer specifically to the raising of the threshold to \$350,000, the removal of payroll taxes (FICA, Work Comp, and Unemployment insurance) from the base and efforts to expand the opportunity to use the small business credit. Recent actions by the House to remove the cost of health insurance by 2006 are another step in the right direction and we encourage Senators to move that bill through the Senate in a timely fashion.

To return to the general issue of eliminating the single business tax, we would recommend a return to some kind of phase-out that was halted in previous sessions of the legislature. While some might consider this to be an unachievable goal because of our budget situation, I would direct them to observe the governor’s end of the year press release where she outlined four major accomplishments of her administration including “making half a billion dollars available to attract entrepreneurs to the state”. We would suggest that if the same amount of money were applied across the board rather than targeted to specific businesses or industries, we could lower the single business tax rate from 1.9 to 1.4 percent without any cost to the budget and without pitting segments of job providers against one another. Such a move would jump start a renewed phase out of the single business tax.

Regulations

In regulatory policy as in tax policy, any state that sticks out from the crowd (other states) in a negative manner is inviting trouble with its overall business climate. The single business tax is an example of this in tax policy. We are the only state that has it. It is not a welcome mat for new business. The same is true for regulations. When a state is the only state with a specific regulation or has taken a federal regulation and made it more stringent, the wrong message is often sent to potential job providers. Here are three specific examples of the potential for wrong direction on regulations:

SUTA Dumping – Unemployment Insurance Reforms: As the committee is aware, federal legislation requires us to take action on this important issue. Many have proposed legislation that goes beyond the federal requirements and makes our UI system less friendly than other state systems. It appears that the legislation will be passed along the lines of the federal model and guidelines and this committee and our lawmakers are to be commended for that. However, my point in bringing this up as an example is to illustrate how this can and does happen and how we have to be on guard with every proposed regulation.

Minimum Wage: Proposals have been put forth that would seek to raise Michigan's minimum wage above the current federal level that applies in all states. Rather than engage in a philosophy debate over the minimum wage, consider that in a state that has suffered as a poor business state in numerous rankings – do we really want to Michigan to “stick out” again from other states with a specific requirement that goes above the federal baseline? We would suggest not.

State Specific Ergonomics Regulations: After the federal government repealed its lumbering ergonomics mandate in 2001, the Michigan Occupational Safety and Health Administration (MIOSHA), is on track to adopt a costly, state-specific ergonomics rule. In a state that is shedding manufacturing jobs by the thousands, why should we be adopting a state specific set of rules that would adversely impact the manufacturing industry the most? The only state with a similar regulation is California. Washington State adopted it and it was repealed by ballot initiative. Once again, such an action does not throw out the welcome mat for job providers.

Entrepreneurship

Probably the most often used buzzword in economic development is the term “entrepreneurship” and fostering a climate where entrepreneurs are encouraged and rewarded. Many studies and presentations are given slicing and dicing data and dishing up road-show potions and remedies to grow entrepreneurship. Most of these proposed solutions involve showering grants, loans and tax breaks to chosen industries, start-up businesses, high tech and research and development businesses or whatever enterprise is currently in vogue. As was pointed out earlier in the discussion on the single business tax, collectively, the dollar value of all these narrowly crafted tax breaks add up to a price tag that would be better spent trying to lift all boats by applying the resources across the board to all Michigan businesses. The only institution that has consistently been right on which type of business or industry succeeds or fails (and by consequence creates or loses jobs) has been the market. But will overall tax climate changes be as effective as specific and scientifically targeted tax breaks? No, they will probably be more effective. Consider the March 2 release from the SBA Office of Advocacy, a copy of which will be included with this testimony and the headline which reads: “Reducing Marginal Tax Rates Increases Entrepreneurship, Study Shows”. Here are some points from the study:

Tax Rates Directly Affect Entrepreneurial Entry, Duration, And Exit:

- A marginal tax rate reduction of one percent on entrepreneurial income increases the probability of entrepreneurial entry by 1.42 percent for single filers and 2.0 percent for married filers.
- A marginal tax rate reduction of one percent on entrepreneurial income decreased the probability of exiting entrepreneurial activity by 17.32 percent for single filers and by 7.81 percent for married filers.
- A marginal tax rate reduction of one percent on entrepreneurial income lengthens the duration of entrepreneurial activity by 32.5 percent for single filers and 44.8 percent for married filers.
- Higher marginal tax rates on wage-and-salary income also increase entrepreneurial activity as they provide incentives for workers to start their own businesses.

In summary, a great deal of energy and time can be saved by rethinking the economic development game and focusing on overall state tax and regulatory policy. The only segment of the economy that would suffer under this approach would be the cottage industry of economic development experts and consultants who play one state off against another and extract tax concessions for their specific clients.

Conclusion

Time does not allow a discussion of all taxes and regulations that adversely impact Michigan's business climate. In this presentation I have attempted to give you a picture of the important role small business plays in our state economy and provide some suggested direction to policy makers on how they can leverage the strength of small business to lead us out of our current predicament. I have also provided some examples and specific suggestions on a few of the major tax and regulatory hurdles we must overcome in order to put Michigan back on the map for job growth. I thank you for this opportunity and I look forward to working with you to make our state a better place for job providers and our citizens.

Attachments

SBA Office of Advocacy News Release March 2, 2005.
SBA 2004 Michigan Small Business Profile
NFIB Michigan *Small-Business Conditions*SM report



OFFICE OF ADVOCACY NEWSRELEASE

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Reducing Marginal Tax Rates Increases Entrepreneurship, Study Shows ***Tax Rates Directly Affect Entrepreneurial Entry, Duration, And Exit***

WASHINGTON, D.C. – Reducing marginal income tax rates on entrepreneurs increases entrepreneurial entry, decreases exit from entrepreneurship, and lengthens the duration of entrepreneurial ventures, according to a study released today by the Office of Advocacy of the U.S. Small Business Administration.

“This study shows how tax rates directly impact entrepreneurship,” said Thomas M. Sullivan, Chief Counsel for Advocacy. “Reducing marginal tax rates on entrepreneurial income provides a clear incentive for entrepreneurial activity. Policy makers who understand the importance of increasing entrepreneurship and economic growth should use this study to guide their policy decisions.”

The study, *Taxes and Entrepreneurial Activity: An Empirical Investigation Using Longitudinal Tax Return Data* written by Donald Bruce and Tami Gurley with funding from the Office of Advocacy, offers several specific findings including:

- A marginal tax rate reduction of one percent on entrepreneurial income increases the probability of entrepreneurial entry by 1.42 percent for single filers and 2.0 percent for married filers.
- A marginal tax rate reduction of one percent on entrepreneurial income decreased the probability of exiting entrepreneurial activity by 17.32 percent for single filers and by 7.81 percent for married filers.
- A marginal tax rate reduction of one percent on entrepreneurial income lengthens the duration of entrepreneurial activity by 32.5 percent for single filers and 44.8 percent for married filers.
- Higher marginal tax rates on wage-and-salary income also increase entrepreneurial activity as they provide incentives for workers to start their own businesses.

The study was released at a panel discussion entitled “Tax Policy and the Entrepreneurial Sector,” sponsored by the Small Business & Entrepreneurship Council. It analyses tax return data from 1979-1990. This period encompasses the tax policy changes of the 1980s, which allowed the authors to closely examine the effects of tax rate changes on entrepreneurship.

The Office of Advocacy, the “small business watchdog” of the government, examines the role and status of small business in the economy and independently represents the views of small business to federal agencies, Congress, and the President. It is the source for small business statistics presented in user-friendly formats and it funds research into small business issues. For more information and a copy of the report, visit www.sba.gov/advo.

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Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government. Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional Advocates and an office in Washington, DC, support the Chief Counsel's efforts. For more information on the Office of Advocacy, visit www.sba.gov/advo, or call (202) 205-6533.

NFIB[®] SMALL-BUSINESS NEWS

Michigan *Small-Business Conditions*SM

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Michigan Fares Poorly Among Other States in Small Business Conditions Poll *New survey finds state on wrong path relative to surrounding states*

Michigan's overall small-business environment and outlook does not paint a rosy picture according to the inaugural Michigan *Small-Business Conditions*SM report. The new report's data, which was released today by the National Federation of Independent Business (NFIB)/Michigan, provides an overview of small-business conditions within Michigan and compares them with neighboring and other large population states.

"Various sources have produced numerous rankings and surveys of Michigan's business climate relative to other states, but this is the first one that specifically focuses on small-business conditions," said Charlie Owens, NFIB/Michigan State Director. "It is a wake-up call for everyone concerned about jobs and our state's economy."

Only a net 15 percent of the state's small employers (percent positive minus percent negative) believed business conditions in their market area are good while a net 16 percent characterized conditions as improving. Michigan's figures put the state last among the twenty-six states surveyed on business conditions, including neighboring states Ohio, Indiana and Wisconsin. A net 55 percent did say prospects for the next three months were good. Even then, the outlook of Michigan small-business owners was 13 percentage points lower than in Ohio, eight lower than in Indiana and 11 percentage points lower than in Wisconsin.

A net 2 percent indicated they were satisfied with the direction the state is headed. Michigan's satisfaction was very low compared to most other large states. For example, Texas had a net 49 percent who were satisfied and New Jersey had a net 11 percent.

"Small business owners are tired of tax increases and tax shifts as the knee-jerk response to budget deficits," said Owens. "Its time for some tough decisions on the budget and tax policy."

The *Small-Business Conditions*SM reports are developed from surveys of small-business owners in selected states. The surveys are designed to determine the condition of the small-business economy in each particular state. The surveys are conducted every three months and results are released on the first day of the month following completion. For information on small-business conditions in Michigan, visit <http://www.NFIB.com/object/sbcmi0305.html>. Visit www.NFIB.com/MI for information about NFIB's activities in Iowa. For information about the *Small-Business Conditions*SM project and other small-business research studies conducted by the NFIB Research Foundation, visit www.NFIB.com/research.

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Michigan Small-Business Conditions™

This chart shows the results from Michigan and its net percentage comparative standing among states included in the survey.

| Question: | Business environment supportive? | Business conditions good? | Business conditions - three month outlook good? |
|------------------|----------------------------------|---------------------------|---|
| 26 State Average | 25 | 40 | 66 |
| Michigan | 18 | 15 | 55 |
| High two states | SC 40 GA 47 | MD 65 FL 61 | AZ 79 MD 77 |
| Average | PA 23 OH 27 MN 27 | CO 41 OR 39 | OR 66 WI 66 |
| Low two states | NY 3 WA -9 | NY 17 MI 15 | MI 55 NJ 54 |

Michigan Quarterly Spotlight

| | |
|--|------|
| In general, how satisfied are you with the direction that Michigan is headed? | |
| Very satisfied | 5% |
| Somewhat satisfied | 43% |
| Not too satisfied | 26% |
| Not at all satisfied | 20% |
| Don't Know/Refused | 6% |
| Total | 100% |
| Net percentage* | 2 |
| *Other state direction net percentage results: GA 58, IA 49, CO 46, TX 42, OR 24, NJ 11, MI 2, IL 1, NY -14. | |
| Which type of energy price increases most affect your business? | |
| Gasoline | 38% |
| Natural gas | 18% |
| Electricity | 23% |
| Heating Oil | 6% |
| Diesel | 5% |
| Other | 3% |
| Don't Know/Refused | 7% |
| Total | 100% |

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Michigan *Small-Business Conditions*SM

This chart shows the results from Michigan and its comparative standing among selected states in the region.

| | Survey Date | Michigan | Ind. | Ohio | Wis. |
|---|-------------|----------|------|------|------|
| Business Climate | | | | | |
| Overall state business environment | | | | | |
| Net % "supportive" of small business | 2/2005 | 18 | 21 | 27 | 22 |
| | Prior qtr. | - | - | - | - |
| Business conditions in market area | | | | | |
| Net % "good" | 2/2005 | 15 | 31 | 34 | 33 |
| | Prior qtr. | - | - | - | - |
| Net % "improving" | 2/2005 | 16 | 15 | 17 | 10 |
| | Prior qtr. | - | - | - | - |
| Outlook for business | | | | | |
| Net % "good" in next three months | 2/2005 | 55 | 63 | 68 | 66 |
| | Prior qtr. | - | - | - | - |
| Reason for optimism | | | | | |
| % Sales prospects | 2/2005 | 45 | 55 | 39 | 59 |
| | Prior qtr. | - | - | - | - |
| % Lower costs | 2/2005 | 2 | 3 | 3 | 1 |
| | Prior qtr. | - | - | - | - |
| % Price increases | 2/2005 | 2 | 2 | 5 | 5 |
| | Prior qtr. | - | - | - | - |
| % Greater productivity | 2/2005 | 14 | 17 | 19 | 12 |
| | Prior qtr. | - | - | - | - |
| % Government policy | 2/2005 | 3 | 2 | 4 | 3 |
| | Prior qtr. | - | - | - | - |
| Reason for pessimism | | | | | |
| % Sales prospects | 2/2005 | 13 | 15 | 8 | 20 |
| | Prior qtr. | - | - | - | - |
| % Cost increases | 2/2005 | 9 | 5 | 0 | 10 |
| | Prior qtr. | - | - | - | - |
| % Pressure on selling prices | 2/2005 | 4 | 0 | 8 | 10 |
| | Prior qtr. | - | - | - | - |
| % Lower productivity | 2/2005 | 9 | 10 | 0 | 5 |
| | Prior qtr. | - | - | - | - |
| % Government policy | 2/2005 | 26 | 35 | 25 | 30 |
| | Prior qtr. | - | - | - | - |
| Sales and earnings (last quarter) | | | | | |
| Sales | | | | | |
| Net % sales "good" | 2/2005 | 21 | 28 | 36 | 37 |
| | Prior qtr. | - | - | - | - |
| Profits | | | | | |
| Net % profits "good" | 2/2005 | 4 | 7 | 20 | 20 |
| | Prior qtr. | - | - | - | - |
| Employment | | | | | |
| Current job openings (one or more) | | | | | |
| % "Yes" | 2/2005 | 13 | 20 | 20 | 19 |
| | Prior qtr. | - | - | - | - |
| Per employee payroll cost | | | | | |
| Net % "risen" | 2/2005 | 12 | 17 | 10 | 23 |
| | Prior qtr. | - | - | - | - |

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Michigan Small-Business ConditionsSM, March 2005, continued

| | | | Michigan | Ind. | Ohio | Wis. |
|---|------------|--|----------|------|------|------|
| Employee cost pressures (greater) | | | | | | |
| % Wages | 2/2005 | | 49 | 52 | 52 | 52 |
| | Prior qtr. | | - | - | - | - |
| % Benefits | 2/2005 | | 31 | 33 | 31 | 35 |
| | Prior qtr. | | - | - | - | - |
| Productivity | | | | | | |
| Upgraded technology/processes (last three months) | | | | | | |
| % "Yes" | 2/2005 | | 45 | 40 | 43 | 46 |
| | Prior qtr. | | - | - | - | - |
| Made capital expenditure(s) (last three months) | | | | | | |
| % "Yes" | 2/2005 | | 41 | 42 | 42 | 55 |
| | Prior qtr. | | - | - | - | - |
| Made expenditure to train employee(s) (last three months) | | | | | | |
| % "Yes" | 2/2005 | | 41 | 36 | 37 | 43 |
| | Prior qtr. | | - | - | - | - |
| Capacity utilization – can increase sales 10% without new inputs | | | | | | |
| % "Yes" | 2/2005 | | 59 | 60 | 57 | 48 |
| | Prior qtr. | | - | - | - | - |
| Credit availability (last three months) | | | | | | |
| % All credit needs satisfied | 2/2005 | | 36 | 37 | 39 | 45 |
| | Prior qtr. | | - | - | - | - |
| % All credit needs not satisfied | 2/2005 | | 10 | 11 | 7 | 8 |
| | Prior qtr. | | - | - | - | - |
| % No credit needs | 2/2005 | | 49 | 48 | 50 | 43 |
| | Prior qtr. | | - | - | - | - |
| Prices | | | | | | |
| Purchasing prices (last three months) | | | | | | |
| Net % increased | 2/2005 | | 60 | 58 | 46 | 58 |
| | Prior qtr. | | - | - | - | - |
| Selling prices (last three months) | | | | | | |
| Net % increased | 2/2005 | | 17 | 16 | 13 | 15 |
| | Prior qtr. | | - | - | - | - |
| Miscellaneous | | | | | | |
| Involvement in start of another business | | | | | | |
| % "Yes" | 2/2005 | | 11 | 12 | 8 | 9 |
| | Prior qtr. | | - | - | - | - |
| Single most important business problem | | | | | | |
| % Weak sales | 2/2005 | | 13 | 11 | 11 | 9 |
| | Prior qtr. | | - | - | - | - |
| % Taxes | 2/2005 | | 13 | 13 | 11 | 12 |
| | Prior qtr. | | - | - | - | - |
| % Employee quality/costs | 2/2005 | | 7 | 11 | 8 | 9 |
| | Prior qtr. | | - | - | - | - |
| % Insurance | 2/2005 | | 17 | 16 | 14 | 25 |
| | Prior qtr. | | - | - | - | - |
| % Big-business competition | 2/2005 | | 13 | 15 | 15 | 14 |
| | Prior qtr. | | - | - | - | - |
| % Inflation/Rising prices | 2/2005 | | 11 | 12 | 13 | 14 |
| | Prior qtr. | | - | - | - | - |
| % Credit availability/Interest rates | 2/2005 | | 3 | 5 | 2 | 3 |
| | Prior qtr. | | - | - | - | - |
| % Regulations/Red tape | 2/2005 | | 6 | 7 | 10 | 7 |
| | Prior qtr. | | - | - | - | - |

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Michigan Small-Business ConditionsSM, March 2005, continued

The Poll

NFIB's Michigan Small-Business ConditionsSM is a telephone survey of a random sample of Michigan small employers regarding business conditions within the state. "Small employer" is defined here as employing between one and 250 people (not including the owner(s)) in a for-profit business. Each edition of the survey has a minimum of 350 respondents. The sampling error is ± 5 percentage points. Data are collected quarterly in the months of February, May, August and November, beginning in February 2005. The MRCGroup of Las Vegas conducts the survey for the NFIB Research Foundation.

The text of the questions and the complete response set to the survey can be found at www.NFIB.com/research.

The Sponsor

The NFIB Research Foundation is a 501 (c)(3) organization that provides policy-makers, media, educators, small-business owners and other interested parties empirically based information on small business and small-business owners. The Foundation is affiliated with the National Federation of Independent Business, the nation's largest small- and independent-business advocacy organization, and is located in Washington, D.C.

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Small Business Profile: MICHIGAN

Small businesses make a significant contribution to the U.S. economy, and in 2003, they were the engine of Michigan's economic performance. Nationally, half of U.S. non-farm private output and employment is generated by small firms with 500 or fewer employees; in Michigan, small business owners—including women, minorities, and home based individuals—were leaders in the state's economy in 2003. The Office of Advocacy's *Small Business Profile* reports on small businesses in the state using the most currently available data.

Number of Businesses. The estimated total number of small businesses in Michigan in 2003 was 742,600.¹ Of the 210,803 employer firms in 2003, 98.4 percent or an estimated 207,400 were small firms. The estimated number of employer businesses decreased by 0.4 percent in 2003. The most recent data available show that non-employer businesses numbered 535,202 in 2001. Self-employment decreased by 2.4 percent, from 295,402 in 2002 to 288,436 in 2003. (Source: U.S. Dept. of Labor, Employment and Training Administration; U.S. Dept. of Commerce, Census Bureau; U.S. Dept. of Labor, Bureau of Labor Statistics.)

Women-Owned Businesses. Self-employment by women increased by 0.9 percent, from 123,470 in 2002 to 124,601 in 2003 and represented 43 percent of self-employed persons in the state. Women-owned businesses generated \$26.5 billion in revenues, employed 288,132 workers, and constituted 184,600 firms or 27.2 percent of all firms in 1997. (Sources: U.S. Dept. of Labor, Bureau of Labor Statistics; U.S. Dept. of Commerce, Census Bureau.)

Minority-Owned Businesses. In 1997, 18.5 percent or 9,600 of the minority-owned businesses in the state were employer firms, and they generated 89.6 percent of the total minority-owned business revenue of \$12.7 billion. There were 10,000 Hispanic-owned businesses; 25,000 Black-owned businesses; 11,700 Asian and Pacific Islander-owned businesses; and 5,800 American Indian and Alaskan Native-owned businesses in 1997. (Source: U.S. Dept. of Commerce, Census Bureau.)

Business Turnover. The estimated number of new employer businesses was 22,022 in 2003, which is 3.4 percent less than

the previous year. Business bankruptcies decreased by 14.7 percent, and totaled 684 in 2003. Business terminations decreased by 8.3 percent and numbered 24,748 in 2003. (Source: U.S. Dept. of Labor, Employment and Training Administration; Administrative Office of the U.S. Courts; U.S. Dept. of Commerce, Census Bureau.)

Employment. Small businesses with fewer than 500 employees numbered 189,624 in 2001 and employed 2,036,450 people or 50.8 percent of the state's non-farm private workforce (Table 1).² Total net employment loss in the state amounted to 63,375 between 2000 and 2001. Of that number, 56,106 are attributable to MSAs (metropolitan statistical areas). During the same time period, firms with fewer than 20 employees gained 22,260 jobs. (Source: U.S. Dept. of Commerce, Census Bureau, Statistics of U.S. Businesses. Note: Urban (MSA) and rural (non-MSA) employment data is available at: www.sba.gov/advo/stats/data.html.)

Small Business Income. Small business proprietors' income in 2003 increased by 6.5 percent, from \$20.6 billion in 2002 to \$21.9 billion in 2003. (Source: U.S. Dept. of Commerce.)

Finance. Small firms typically use commercial bank lenders and rely on local bank services. Over the last five years there has been a gradual decline in the number of banks in Michigan (Table 3). The Office of Advocacy has identified banks in each state that make the most loans to small businesses. This information is available in its banking studies available at www.sba.gov/advo/stats.

To learn more about the Office of Advocacy's research, data, and analyses of small businesses, visit www.sba.gov/advo, call (202) 205-6533 or email advocacy@sba.gov.

Sign up at <http://web.sba.gov/list> for email delivery of:

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¹ The Office of Advocacy's estimate of the total number of state small businesses is based on the percent of small businesses (2001 Census Bureau firm size data) multiplied by the total number of employer businesses in 2003 (Dept. of Labor). To this total, we add the 2001 number of non-employer firms (Census Bureau).

² The number of employers listed in Table 1 is not directly comparable to the figures listed in the *Number of Businesses* section due to different data sources.

Table 1. Firms and Employment in Michigan by Industry and Firm Size, 2001 (Thousands)

| Industry | Non-employer Firms | Employer Firms | | | Employment | | |
|---|--------------------|----------------|---------------|---------------|-----------------|-----------------|-----------------|
| | | Total | < 100 | < 500 | Total | < 100 | < 500 |
| Total | 535.2 | 192.71 | 185.65 | 189.62 | 4,008.57 | 1,448.94 | 2,036.45 |
| Agriculture, forestry, fishing, and hunting | 4.89 | 0.64 | 0.63 | 0.64 | 3.57 | 2.91 | 3.44 |
| Mining | 2.47 | 0.41 | 0.37 | 0.39 | 6.22 | 2.61 | 3.45 |
| Utilities | 0.44 | 0.12 | 0.09 | 0.09 | 25.61 | 0.97 | 1.3 |
| Construction | 70.13 | 26.36 | 26.14 | 26.29 | 190.98 | 150.06 | 175.27 |
| Manufacturing | 9.7 | 14.05 | 12.55 | 13.44 | 755.64 | 179.98 | 315.25 |
| Wholesale trade | 11.69 | 11.25 | 10.13 | 10.57 | 188.55 | 10.13 | 117.84 |
| Retail trade | 57.13 | 26.73 | 25.75 | 26.21 | 543.65 | 25.75 | 247.69 |
| Transportation and warehousing | 17.57 | 4.5 | 4.18 | 4.32 | 97.15 | 4.18 | 41.61 |
| Information | 6.39 | 2.13 | 1.86 | 1.93 | 94.27 | 15.77 | 21.63 |
| Finance and insurance | 20.5 | 6.99 | 6.58 | 6.73 | 162.7 | 42.33 | 59.46 |
| Real estate; rental and leasing | 62.9 | 7.03 | 6.79 | 6.89 | 61.68 | 31.67 | 61.68 |
| Professional, scientific, and technical services | 66.62 | 20.26 | 19.6 | 19.94 | 212.6 | 109.67 | 148.7 |
| Management of companies and enterprises | N/A | 1.07 | 0.37 | 0.66 | 156.94 | 3.21 | 11.92 |
| Admin., support, waste mngt., and remed., services | 31.29 | 10.6 | 9.9 | 10.32 | 298.87 | 9.9 | 146 |
| Educational services | 10.44 | 1.76 | 1.64 | 1.72 | 58.14 | 19.93 | 32 |
| Health care and social assistance | 56.87 | 19.06 | 18.37 | 18.87 | 506.19 | 158.27 | 251.81 |
| Arts, entertainment, and recreation | 21.92 | 3.3 | 3.2 | 3.26 | 53.18 | 28.49 | 36.45 |
| Accommodation and food services | 6.01 | 14.46 | 13.99 | 14.27 | 329.89 | 169.63 | 214.21 |
| Other services | 78.26 | 22.81 | 22.46 | 22.66 | 182.82 | 142.91 | 163.91 |
| Auxiliary, except corp, subsidiary, and regional managing offices | N/A | 0.28 | 0.05 | 0.11 | 77.6 | 0.31 | 1.51 |
| Unclassified | N/A | 1.76 | 1.76 | 2.36 | 2.36 | 2.36 | 2.36 |

*Data suppressed to protect the confidentiality of individual firms.

Source: U.S. Department of Commerce, Census Bureau.

Table 2. Non-farm Establishment Job Gains and Losses by Firm Size, 2000–2001 (Thousands)

| | Total | Firm Size (Number of Employees) | | |
|--------------------------|---------|---------------------------------|---------|---------|
| | | 1–19 | 1–499 | 500+ |
| Job Gains: | | | | |
| New establishments | 203.21 | 55.42 | 111.62 | 91.6 |
| Expanding establishments | 380.27 | 97.66 | 210.25 | 170.02 |
| Job Losses: | | | | |
| Downsized establishments | -427.94 | -75.43 | -218.31 | -209.63 |
| Closed establishments | -218.92 | -55.4 | -114.19 | -104.72 |
| Net change in employment | -63.38 | 22.26 | -10.64 | -52.73 |

Source: U.S. Department of Commerce, Bureau of the Census, Statistics of U.S. Businesses, 2001.

Table 3. Number of Banks in Michigan by Asset Size, 1995 – 2003

| Number of Banks Per Year | | | | | Number of Banks by Asset Size, 2003 | | | | |
|--------------------------|------|------|------|------|-------------------------------------|---------------|------------|------------|------------|
| 1995 | 2000 | 2001 | 2002 | 2003 | Below \$100M | \$100M–\$500M | \$500–\$1B | \$1B–\$10B | Over \$10B |
| 182 | 173 | 163 | 161 | 159 | 57 | 85 | 6 | 8 | 3 |

Source: U.S. Small Business Administration, Office of Advocacy, from data collected by the Federal Reserve Board.

The full list of small-business-friendly banks can be found on the Office of Advocacy's website at www.sba.gov/advocacy/lending.

3-23-2004

Jobs poised to flee California

The Golden State is losing its luster. A new study commissioned by the California Business Roundtable found that nearly 40 percent of California companies are planning to move jobs out of state.

"Our research reveals that "business as usual" is not working in California and that there are distinct areas that the state must address to improve competitiveness and keep high value jobs in the state," says Dick Kovacevich, Chairman and CEO of Wells Fargo and Company and chairman of the California Business Roundtable. "The tech bubble merely masked the erosion of California's competitiveness and (this report) reveals that California has lost its edge. Looking forward, if nothing changes, things are likely to get worse."

Among the report's results:

- * 100 percent of senior executives surveyed for the report found California's business climate "unfavorable."
- * 27 percent of the state's jobs are considered "mobile" and in danger of moving out of state. Affected sectors include manufacturing, software programming, and insurance underwriting.
- * 50 percent of companies surveyed have specific plans to move jobs out of state. Many plan to do this by placing their expansion efforts, such as new factories or design centers, out of state.
- * California has already lost significant job ground in the industry for which it is world-renowned - entertainment. Since 1997, motion picture production days have plunged more than 60 percent in California, while rising 300 percent in Texas.
- * One reason companies are leaving the state: regulation. Complex and unpredictable rules governing labor laws, construction laws, and other areas of business make life difficult for growth-minded companies, according to the survey.